Summary of External Consultation Comments

Title of Document: **Residential Mortgage Underwriting Practices and Procedures (Guideline B20)**

Date: June 1, 2012

821 001

Comments included in this detailed assessment include those from:

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Industry Comment	**OSFI Response**
General Comments	

NOT PART OF REQUEST

NOT PART OF REQUEST

Principle 4 FRFIs' Sound Collateral Management	
in respect of property appraisals, "Further clarification of the Guideline's requirements on property appraisals are recommended, particularly in relation to the use of on-site appraisals versus automated property risk assessment…On-site appraisal is prescribed as the default option for proper collateral management, yet this method has its shortcomings (e.g., the tendency to be more subjective in assessment, pro-cyclical by confirming the market trend, and more costly and time-consuming compared to some other methods). Specifically, traditional on-site appraisal approaches are not helpful in underwriting in overheated markets as they will tend to confirm the current market value without any recognition of the overall state of the market. Broader tools such as comprehensive automated property risking models that consider property risk — both valuation and market condition — are more prudent; and he use of alternative and multiple collateral assessment methods would also benefit from further clarification on the circumstances where these are warranted (e.g., what would be considered "appropriate circumstances", transactions that involve "liquid" and "illiquid properties," or "certain lending situations," etc.)."	Automated models also have their drawback – primarily that they are driven by the sellers' listings, which often inflates the value of the home. It needs to be emphasized in the guideline that *multiple* methods should be used, and FRFIs should not rely solely on one method.
in respect of property appraisals, "The Guideline's Principle 4 stipulates in footnote 12 that lenders should meet the valuation/appraisal requirements set out by the mortgage insurers to ensure the validity of mortgage insurance. It is important to note that in order for mortgage insurance to be valid, lenders must meet all requirements by mortgage insurers, which go beyond valuation/appraisal. Thus, we suggest that the Guideline acknowledge this as a requirement under all applicable principles."	Agree. We can add this statement up front.
in respect of property appraisals, " is concerned with the relaxation of valuation policies "where a FRFI has recently appraised a neighbouring (e.g., units in the same building) and/or similar property". This practice carries significant risks and, as an experienced appraisal professional can attest, neighbouring or adjoining properties can and often have vastly different physical characteristics that can impact overall values."	Agree. We will refine the language.

in respect of property appraisals, "the Guideline should be more specific and define what is intended by "higher-risk transactions" and a "relatively high LTV ratio". is of the opinion that the Guideline should stipulate that mortgage insurers are also subject to using alternative approaches (i.e., on-site inspections, third-party appraisers).	
in respect of property appraisals, "strongly recommends that FRFIs be required to develop specific guidelines regarding the use of Appraisal Management Companies in the mortgage origination business." This should include guidelines on the level of documentation required, standards of professional practice conduct, recognized professional appraisal designations and organizations. Additionally, the OSFI Guideline should define and explain the difference between illiquid and liquid properties, in the context of collateral and specify tolerances (i.e., percentage) to support what is intended by a larger range in collateral value.	This is too detailed for OSFI guidance.
in respect of property appraisals, they suggest the rewording from "On-site inspection" to "on-side inspection for appraisal purposes" and to define what is meant by a "qualified employee" changes in the text to read: "FRFIs that use third-party appraisers…appropriate professional <u>appraisal</u> skills….appraisers be <u>designated</u>, licensed or certified. is also recommending that "FRFIs (be) required to obtain third-party appraisals for a specified percentage of the Refinance, Purchase and portfolio insured loans."	We will amend the language to be more precise regarding on-site inspections and qualified third party appraisers. Requiring FRFIs to obtain third-party appraisals for a specified percentage of insured loans goes beyond the scope of this guideline.
in respect of property appraisals, for insured properties, "As mortgage insurers pay lenders' claims if a mortgage goes into default, they take responsibility for completing the property valuation process when applications for high ratio mortgages. The wording in the draft regulations seems to imply that OSFI now expects lenders to repeat the property valuation processes that are already being done by insurers. In addition, the draft Guideline includes the sentence, *FRFIs should undertake a more comprehensive and prudent approach to collateral valuation for higher risk transactions, such as residential mortgage loans with relatively high LTV ratios.* Requiring lenders to repeat the work done by mortgage insurers does not make sense, since all mortgages with an LTV above 80% originated by FRFIs must be insured and the mortgage insurer is already taking the steps necessary to determine the value of the property. believes that the efforts of insurers to verify property valuations should be sufficient as they are the entity taking the risk. As such, we recommend lenders should be relieved of this redundant requirement on high ratio insured mortgages."	Mortgage insurers generally only use automated models to conduct valuation. The lenders do not need to replicate this effort. However, FRFIs should use other valuation methods, including on-sites. This is the lenders' responsibility. We will re-examine language in the guideline to ensure that it is clear.
, in respect of property appraisals, collateral management and renewals, '…the sentence *Property collateral management for residential mortgages*	Property appraisal is the lenders' responsibility – at origination, renewal and refinancing.

(at origination, <u>renewal</u> or refinancing) should include a comprehensive on site appraisal fails to recognize, that for high ratio mortgages, the insurance coverage lasts for the entire amortization period and has no control over the renewal, as the lender cannot trigger a claim by failing to renew the mortgage. In addition, there is the practical difficulty that after origination it is difficult for a mortgage insurer to get access to a property. As a result, mortgage insurers should be excluded from the requirements in this section."	
in respect of property appraisals and third-party appraisers, '…Instead of using the terms "license" and "certificate," it is common to use the terms…"permit"….also, as for the expression "professional qualifications," considering that the profession of appraiser is regulated by law, it is appropriate to use the expression "Standards of Professional Practice" approved by the regulatory and supervisory body. and supervisory body, while elsewhere in Canada. We proposed the following wording of the relevant paragraph: *Third-party appraisers – FRFIs that use third-party appraisers should ensure that appraisals are prepared with the appropriate professional skill and diligence, and that appraisers hold a valid permit to practice issued by the recognized regulatory and supervisory body responsible for overseeing the practice of their profession and be required to comply with the Standards of Professional Practice approved by the said body. As well, these appraisers should be independent from the mortgage acquisition, loan processing and loan decision process.*	
in respect of property appraisals and compliance costs, 'the "property section" of the proposed guideline raises another related (cost) issue since here we learn that the new loan documentation should include costly on-site appraisals at renewal "unless there are *appropriate circumstances* that justify the use of alternative approaches". While the guideline goes on to explain what these alternative approaches might look like, it defines "appropriate circumstances" as a function of the liquidity of the underlying asset. As we learned during the recent financial crisis, housing liquidity tends to vary pro-cyclically. The effect of this proposal could be for credit unions and other financial institutions to ask homeowners to pay for costly appraisals in the midst of an economic downturn and contraction in housing prices that renders previously liquid homes illiquid…In this same section, the guideline further proposes that "substantiated and supportable valuations should be conducted to reflect the *current* price level and the property's function as collateral *over the term* of the mortgage." This proposal appears to require valuation assessments at each moment ("current")	

over the term of the mortgage, surely a costly requirement that does not appear to yield much in the way of tangible benefits but which will assuredly lead to higher prices for customers or, to the extent these costs are not passed along to consumer, lower profitability, retained earnings and ultimately capital…we offer the following recommendations: The proposals to obtain…property appraisals... "in appropriate circumstances" should be interpreted strictly as applying to situations where a borrowers is seeking to refinance an existing home or otherwise fundamentally alter the terms of its mortgage. They should not apply to standard mortgage renewal situations."	
in respect of property appraisals and automated valuation models, states, "OSFI's proposal -- Where FRFIs use automated valuation tools, processes should be established to monitor their on-going effectiveness in representing the market value of the property. Controls should also be in place to ensure that the tools are being used appropriately by lending officers." Comments that follow within the OSFI document appear to suggest that OSFI wishes to curtail the use of models, such as in language like "thorough and proper assessment", "comprehensive, on site-appraisal", and a suggestion that lenders should "adjust" appraisals based on certain factors. According to the Canadian Association of Accredited Mortgage Professionals (CAAMP), each year about 350,000 new home owner mortgages are arranged in Canada "Annual State of the Residential Mortgage Market", Fall 2010). Is there evidence that use of automated valuation models has contributed to increased mortgage defaults in Canada? A full move back to physical appraisals, applied to 350,000 new mortgages per year, would cost consumers hundreds of millions of dollars per year. Furthermore, consumers would be inconvenienced, as they must be at home for a full appraisal."	

'we believe that the use of on-site evaluations of properties, "except in exceptional circumstances," is a far too restrictive. In a similar vein, the proposed course of systematically reassessing the property at the time of renewal of loans seems problematic, in that it is unnecessarily burdensome. Best practices in risk management for retail clients have, including through the use of systems and models of default probability performance, helped establish the concept of management by exception of high-risk cases. This approach has proven itself and has the advantage of ensuring a sound risk management while allowing flexibility in the use of credit to the majority of customers who are not in financial difficulty."	
in respect of property appraisals and automated valuation tools, states, "…in the past, has already expressed major concerns with respect to the use of the EMILI system by the FRFIs. Although it provides very rapid responses, this automated approval system has significant shortcomings, the most important of which is that the data that have the greatest impact on setting property values are generated by reference tools developed by and for <u>sellers</u>, if not for the data provided by the buyers interesting in closing the deal as quickly as possible and at the lowest possible price. **The EMILI system does not estimate a property's market value; instead it uses general parameters to determine a risk potential. That explains why CMHC-insured loans are often granted without truly taking into account the property's market value** and—therefore—the Loan-to-Value (the "LTV") ratio. This poses a real danger of altering housing market data. In the case of loans that are insured by the CMHC, the time "saved" comes with a high price tag for the consumer: if the property is overvalued, the insurance premium will be based on the "overvaluation" and multiplied by 25 years of mortgage payments. The resulting sum may be considerable! Thus, the CMHC, a Crown corporation, cuts corners by not demanding professional appraisals and generates higher revenues by basing its premiums on overvalued figures. This situation is that much more inacceptable in that buyers feel reassured with respect to the value of their investments because it was validated by a Crown Corporation, while the CMHC does not appraise the real value of the purchased property. Instead, it appraises the risk associated with the debtor. In practical terms, this is how things unfold: when applying for a new loan or refinancing an existing loan, the debtor or his/her representative provides the lender with information on the property offered as collateral. The data originating from MLS listings may contain errors	

which, incidentally, will have a significant impact on the property's value. For example:

(a) Generally, there is a variance of up to 20 – 30% between a lot's actual surface area and the area entered in a MLS listing. Therefore, an equivalent variance would separate the market value and the results generated by the EMILI system;
(b) The MLS listing is a sales tool developed by real estate agents to describe properties as positively as possible. Sometimes, details that are not to the advantage of the seller may be omitted. Thus major renovations described in a MLS listing could be nothing more than a few minor renovations in reality. The same goes for a property's advantages, i.e., close to a metro station, whereas the disadvantages (e.g., close to a railway track) may not be mentioned. Furthermore the simple land area figure gives no indication whatsoever as to the purpose for which the land may be used;
(c) The age of a property is another important factor that impacts its value. Often, this figure is neither verified nor validated and rests upon the buyer's or seller's word;
(d) With respect to "market value," the lender most often indicates the property's "selling price" or—in the case of refinancing—the amount suggested by the borrowing client. This amount is simply validated by the EMILI system, which verifies the average prices in a given neighbourhood. The physical quality of the building is not verified on site. A building's construction quality as well as its condition and specific location are other highly important factors that determine an immovable property's value.

of the view that the EMILI system user should be required to verify the accuracy of the information before entering it in the electronic approval system. Furthermore, we consider that the user should be required to inform the borrowing client that the EMILI system does not appraise the market value of the property (in the sense of an appraisal report provided by a chartered appraiser), but rather simply rejects or approves the loan application based on a remote analysis of different risk factors.

To render the process more transparent, a FRFI should always offer clients the option of having an appraisal report produced to determine the market value of the property they will be offering as collateral for many years to come. This is the fair information that should be provided to clients, who in turn would be well advised when applying for financing. Clients would also be able to appreciate their actual level of indebtedness.

respect of appraisal management companies / brokers, "in 2006, in Quebec, the first intermediary companies having signed general agreements with FRFIs to manage the

awarding of appraisal contracts. If, in the past, chartered appraisers dealt directly with FRFIs, today, they are often awarded their contracts by an "appraisal management company." The results of the professional inspections of chartered appraisers ("C.App.") provide us with the confirmation that the exaggerated "cost-effectiveness" requirements set forth by these appraisal management companies have negatively impacted the quality of the appraisals produced by members who, not willing to lose their "good rating" with these companies, are compelled to produce appraisal reports within an extremely short timeframe without having inspected the property they are asked to appraise. The communications between the chartered appraiser and the FRFI pass through the appraisal service broker. The chartered appraiser is not allowed to contract the FRFI directly, which often makes it difficult to provide complete answers to the FRFI representative's questions regarding the appraisal report. Also, this further complicates and sometimes makes it impossible to gather relevant information for the purpose of preparing the appraisal report.	
in respect of property insurance, …this section mentions the requirement *to make sure that there is legally enforceable title to the property or title insurance in place.* believes there should also be a requirement placed on lenders to ensure that there is adequate property insurance put on the property and that such property insurance stays in place so long as the mortgage is outstanding."	Agree. The intention was that this be the lenders' responsibility.

821 009

20(1) (a) 21(1) (b)

821 010

20(1) (b) 21(1) (b)

in respect of title insurance, "Title insurance has become a common feature of

a real estate and mortgage transaction. appreciates OSFI's recognition of the role of title insurance in a mortgage transaction as stated on page 11 of the Draft Guideline. "FRFIs should ensure that the claim on collateral is legally enforceable and can be realized in a reasonable period of time, or absent that verification, ensure that title insurance from a third party is in place." While the aforementioned statement is a correct assessment of the value of title insurance for the lenders, the next statement that follows is not an accurate portrayal of title insurance. "However, FRFIs should not use title insurance or valuation insurance as a substitute for a sound appraisal or valuation process." Title insurance offers no coverage for valuation risk to lenders. It may be misleading to leave the reference to title insurance in this statement as it may suggest that there are some related coverages to valuation risk similar to valuation insurance, when there are not. ecommends that the first statement be included and that "title insurance" be struck from the second statement regarding valuation to avoid any confusion on the insurance risk covered."	
in respect of the subsection "Property Value used for the LTV ratio," "the Guideline needs to specify why and how the FRFI would adjust the value of the property since doing so would contradict the independent value assessment guideline. (Possible consideration is to remove "adjusting as appropriate" in the language.)	Agree.
	Agree.
in respect of down payment verification, "The Discussion Paper proposes that "incentive rebate payments (i.e. "cash back") should not be considered as part of the down payment". supports this proposal. We believe that FRFIs be prohibited from engaging in this practice. It is a practice that fosters irresponsibility and flies in the face of the concepts of equity building and debt reduction, which historically have been standards and objectives of Canadians."	
in respect of down payments, "The guidelines propose cash incentives or cash rebates not be considered as part of the down payment. We believe this should be measured in respect to additional collateral being provided by the borrower, and any borrowed funds should be within the current qualifying ratios. agrees with the removal of cash rebates being built into the pricing of the borrower's interest rate and no additional security."	

portfolio?	Applying on a portfolio basis could be challenging, and would create the wrong incentives for branch-level employees. A 65% limit on individual clients is clear and compliance can be monitored by the FRFI. Low-risk customers can still be offered an amortized loan beyond the 65% threshold.
would suggest the 65% maximum LTV for HELOCs be set at the portfolio level as the more sensible and practical approach, rather than having the constraint at the transactional level. (Such a limit at the transactional level would cause the bank to rational funding from creditworthy borrowers or find alternative options that would be more costly for consumers and more risky for the bank.	Same as above.
in respect of HELOC maximum LTV, 'some elements of the draft guideline appear more prescriptive than principle and risk-based…including: the imposition of a maximum loan-to-value ratio of less than or equal to 65% for all non-conforming loans, including HELOCs ….we fell that applying a risk-based approach to individual accounts and portfolio management would be more prudent as it would focus attention on the higher-risk aspects of the portfolio while limiting negative impact on lower-risk borrowers…We recommend that the requirement… to cap maximum LTV at 65%, at the borrower level, be applied at the discretion of the FRFI. We would however, be supportive of an overall HELOC portfolio LTV cap of 65%."	Same as above.
in respect of HELOCs and LTV, "The Discussion Paper proposes that HELOCs be structured more like mortgages and be amortized. In our discussion with lenders, these may be difficult to determine… recommends that flexibility be allowed for those individuals with sound credit and verified income, to go beyond the proposed 65% threshold. This would support options for both retirement planning and small business investment…With regard to HELOCs, one size does not fit all. One should also examine the proceeds of the funds. If the funds are used for the purpose of purchasing a home then recommends they should be structured like mortgages and be amortized. On the other hand, if the funds are being used for business purposes, recommends that there not be an amortization requirement."	See above.

in respect to HELOCs and LTV '…the Draft Guideline states that FIs *should in principle, treat all HELOCs in the same manner as they do non-conforming residential mortgages* and *Sound industry practice is, therefore, to limit the HELOC component of a residential mortgage to a maximum authorized LTV ratio of less than or equal to 65%.* In our view, the sweeping classification of all HELOCs as non-conforming will have significant economic implications, as the LTV on all existing HELOCs is reduced from its current 80 percent level, down to 65% within a short period of time – the result may be a considerable and swift net withdrawal of credit from certain key segments of the Canadian economy. Many self-employed individuals and entrepreneurs often use a HELOC as a cost effective substitute for a short-term revolving line of credit which either may be unavailable or expensive (i.e., to replenish inventories, etc.), and to place an arbitrary cap will be detrimental to their business operations and cost of borrowing and withdraw the supply of credit to a productive area of the economy.	
in respect of HELOCs and maximum LTV, "The Discussion Paper is suggesting that these products should be restricted to 65% LTV from 80% and furthermore, is recommending that "interest only" HELOC products be restricted. Many consumers use HELOC products for such things as running their businesses, purchasing investments, vehicles, home renovations or refinancing to consolidate higher priced debt. The Discussion Paper proposes that the HELOC should be structured more like a mortgage to include an amortization and a repayment schedule that reduces the balance owing monthly. This product has served many Canadians well and once again historical statistics have not shown any weakness in the consumer's ability to repay or manage this type of debt. A HELOC is an excellent tool for many borrowers who own and operate small businesses to borrow quickly and inexpensively. It is also an excellent tool for consumers who wish to use the equity in their homes to invest, as well as consumers to consolidate higher interest rate liabilities such as credit cards and unsecured loans. recommends that HELOC rules not be modified any further than they already have."	
n respect of HELOCs and maximum LTV, "Unfortunately…we observe that FRFIs do not reappraise properties when granting HELOCs to their clients. The same applies to LTV ratios, which are not recalculated in the absence of a regular reappraisal of the immovable properties offered to lenders as collateral.	
in respect of LTV and HELOCs, "OSFI's proposal states, "Sound industry practice is, therefore, to limit the HELOC component of a residential mortgage to a maximum authorized LTV ratio of less than or equal to 65 percent." Considerable experience exists with HELOCs for which total LTVs exceed 65%, which can support testing. HELOCs provide a	

lower cost source of funds than do other credit vehicles and are an affordable and convenient component in personal financial management. has not explicitly looked at uses of funds obtained via HELOCs. However, it has looked at uses of equity take-out, in multiple issues of its semi-annual reports on the mortgage market. It has typically found that only a small share is used for "purchases" (in the range of one-fifth). The balance is for debt consolidation or repayment (which benefits lenders by increasing the security of the debts and benefits the borrowers by lowering the interest rates) and in various forms of investment (including "home renovation", which on completion adds to the value of the property and thus the security of the associated mortgages and/or HELOCs). Is there evidence in support of a 65% threshold, that HELOCs at or slightly above 65% LTV are associated with elevated defaults? Has consideration been given to the proposition that policies should be directed at reckless behaviour rather than in a shot-gun approach that will also inhibit prudent behaviour? Has OSFI considered economic consequences of a 65% threshold, such as a sharp reduction in investment in residential renovation (with negative implications for employment), forcing renovations to be funded by unsecured vehicles, or forcing households to rely more on higher cost sources of funds?	
in respect of LTV and non-conforming mortgages, " wishes to comment on the suggestion that "general industry practice is to impose a maximum LTV ratio less than or equal to 65 percent for non-conforming residential mortgages" notes that "non-conforming" products play a vital role in the Canadian residential market and the overall economy. These products serve the self-employed who make up over 15% of the Canadian labour force, new Canadians who may have secure income, but who may not yet have developed a credit score and those who may be recently separated or divorced. As stated in the OSFI Paper, definitions of this product do vary… It's clear that a self-employed person can support higher TDS/GDS levels as they enjoy certain tax advantages that salaried employees do not… recommends non-conforming or alternative lenders be permitted to lend up to 80% LTV."	We will adjust the language that currently suggests that it is "general industry practice" to "OSFI expects". This is a bright-line in the guideline. Non-conforming mortgages may play a vital role in the economy, but they are riskier than conforming mortgages for the FRFI – and need to be treated as such. No changes recommended. FRFIs should define and differentiate between conforming and non-conforming mortgages, and the FRFI's risk appetite should be clearly articulated for each. FRFIs should track conforming and non-conforming mortgages.

in respect of LTV and renewal, "…this section states that *the LTV should be recalculated at renewal, each refinancing and whenever deemed prudent…* Despite this, the section is silent on what should be done if the LTV ratio changes. For example, if the LTV foes above 80%, will the lender then be required to obtain mortgage insurance? Also, mortgage insurers should be excluded from the requirement that requires FRFIs to recalculate LTV at renewal. (Once a mortgage is insured) a mortgage insurer will carry the risk for the entire amortization period of a mortgage, and has no control over the renewal."	As described earlier, it will be clarified in the guideline that an evaluation should be based on a number of factors, examined holistically and on risk-based basis. However, decisions to renew should be well documented and consistent with the FRFI's RMUP (and exception policy). This requirement was not intended to apply to insurers. We will clarify.
in respect of LTV and mortgage renewals, "OSFI's Proposal – "The LTV ratio should be re-calculated at renewal, each refinancing, and whenever deemed prudent, given changes to a borrower's risk profile or delinquency status, using an appropriate valuation/appraisal methodology." This implies that a full appraisal, or at a minimum an automated valuation, should be conducted at each renewal. According to the Canadian Association of Accredited Mortgage Professionals (CAAMP), each year close to 1.4 million mortgages are renewed in Canada (page 20, "Annual State of the Residential Mortgage Market", Fall 2010). Is there evidence that lack of such recalculations has contributed to an increased rate of mortgage defaults? Has OSFI calculated the direct additional costs (professional fees and administrative, not to mention inconvenience) that would be incurred by lenders and/or borrowers in meeting the additional requirements about 1.4 million times per year? Would the imposition of the additional costs, as well as the inconvenience factors for lenders and borrowers, unnecessarily distort decision-making and choices? For example, might it encourage borrowers to select longer terms (or lenders to encourage them) even in situations where a shorter term would be in the best interest of the borrower?"	
in respect of Loan-to-Value and non-conforming mortgages, " disagrees with the Draft Guideline's comment which states that *general industry practice is to impose a maximum LTV ratio less than or equal to 65 percent for non-conforming residential mortgages*. Some lenders adopting a lending approach that relies primarily on the value of the underlying real estate have adopted an approach that references a 65 percent LTV maximum; however, this LTV limit does not apply to all the various approaches to non-conforming lending, which makes good loans at higher LTVs. We believe that it is appropriate, in some circumstances, to permit higher LTVs than the 65 percent limitation for these various forms of	

non-conforming lending.	
in respect of LTV and non-conforming residential mortgages, " does not support the suggestion that "general industry practice is to impose a maximum LTV ratio less than or equal to 65% for non-conforming residential mortgages". Non-conforming products are vital to the Canadian residential marketplace as they provide those borrowers with access to cheaper financing by using the equity in their home. These types of products permit Canadians who are either self-employed, commission earners, seasonally employed or have damaged credit history to borrow at reasonable interest rates. These segments of the population represent a significant portion of Canadians who play a key role in society and in the Canadian mortgage market. A study of FRFIs' mortgage portfolios that contain mortgage investments for non-conforming borrowers will likely reveal that their default rates are well within acceptable industry standards. believes that management of the FRFIs are adequately monitoring the performance of tne non-conforming portfolios. Any interventions to this marketplace will likely result in higher borrowing costs to consumers, lower affordability and a greater risk of default. believes that FRFIs be permitted to continue to offer non-conforming mortgages up to 80% LTV as they have a proven track	

record of applying suitable underwriting policies and guidelines, as well as managing their portfolios."	
in respect of LTV and non-conforming loans, "Equity has always been a valuable underwriting position to establish when lenders are considering any non-conforming loans. Mortgage customers are less likely to abandon their properties if they have a minimum 20% of the value of the property at stake. All lenders need to apply prudent underwriting criteria when considering potential non-conforming clients. The key is to know your customer. If the borrower is new to the lender, further underwriting information should be requested. Established credit track records within the credit community should be proven by the customers. Fiscal management by the customer should be measured in some form of display. We do not see implementing a mandatory level of 65% LTV to lenders as a remedy to control non-conforming income borrowers. recommends further discussion on possible income and credit criteria. further recommends the LTV remain at the current 80% and all registered loan instruments not be allowed to exceed the established loan amount on title. The current practice of registering for loan amounts equal to the value of the property or higher should be stopped. This would reduce the relative easy access to credit by borrowers."	
in respect of LTV, non-conforming loans, and pro-cyclicality, "The Guideline also could unintentionally push borrowers to unconventional, non-regulated entities in other ways, exacerbating pro-cyclical biases. The proposed guideline notes for example that "general industry practice" is to impose a maximum LTV ratio of 65% for non-conforming residential mortgages, which the document goes on to describe as loans with low credit scores, high debt serviceability ratios, mortgages on illiquid properties, or "any loan that has clear deficiencies relative to a conventional mortgage." In the experience of at least one of our members, 65% LTV has ***not*** been the norm for non-conforming mortgages. While we recognize, again, that this is a guideline document and not a regulation, we are concerned that the discussion about 65% LTV threshold could eventually become a de facto standard. The application of such a low threshold by FRFIs and their agents could drive borrowers to look for financing from non-regulated entities…Recommendation…OSFI should clarify that it will use discretion…in evaluating a FRFI's maximum LTV ratio for non-conforming loans."	
under HELOCs and Mortgage Insurance, emphasizing the need to ensure "the value of collateral" is included in a number of spots	We have looked through the document and "the value of collateral" is mentioned in the appropriate places. No need to go further.
Principle 5 FRFIs' Risk Management	

in respect of mortgage insurance, "…while we agree that mortgage insurance should not be a substitute for due diligence by FRFI, the Guideline should clarify whether or not lenders and mortgage insurers must conduct separate due diligence on the same borrowers and loans. Currently, in Canada, some aspects of the due diligence are performed solely by the lender (e.g., confirming the borrower's employment and income); it would be difficult for the insurer to undertake all elements of the process as they do not typically have a direct relationship with the borrower."	Due diligence on the borrower is fundamentally the borrower's responsibility. Insurers can conduct their own due diligence, or verify the FRFIs's work, as appropriate. We will examine the language in the guideline to make sure this is clear.
in respect of purchases of mortgages originated from a third party, "The requirements regarding purchasing mortgages originated from a third party could affect liquidity in the secondary mortgage market. In particular, there would be less flexibility for private mortgage buyers in the cases where an insolvent lender, a securitization, or covered bond structure needs to liquidate mortgages. This is because the buyers not only must conduct due diligence in evaluating the mortgages and price them according to their risks, but also must re-qualify the mortgages under their own mortgage underwriting policies as well as the OSFI Guideline. If the latter is not satisfied, the purchase is not permitted…Currently, some mortgage purchasers (e.g., aggregators in securitization programs) do not have a mortgage lending business, and thus, a mortgage underwriting policy (i.e., Residential Mortgage Underwriting Policy (RMUP)… in some cases, one subsidiary of a FRFI has a RMUP, while another subsidiary, which conducts the mortgage purchase, does not. Clarification would be helpful as to whether or not this requirement would apply in such cases.	This is part of the FSB principles and, hence, an international standard. No change required.
under sub-heading "Higher-risk Asset/Insurance Portfolios – Heightened Prudence", recommends defining what constitutes "higher-risk assets" and "greater credit."	Specifically not defined, by design. This is principles-based.
in respect of mortgage insurance, 'this section should be changed to make it clear that the reference to FRFI is meant to address lenders, and not mortgage insurers. In the specific paragraph that mentions *a FRFI that underwrites mortgage insurance..* suggests that a new section that specifically deals with FRFIs that are mortgage insurers be created."	A new section is not necessary. See above.
Guideline Administration	

NOT PART OF REQUEST